

ODLUM BROWN REPORT

10 2022



ODLUM BROWN
Investing for Generations®

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Blocking and Tackling

COMPOUND ANNUAL RETURNS¹ (Including reinvested dividends, as of September 15, 2022)

	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	20 YEAR	INCEPTION ²
Odium Brown Model Portfolio	-2.5%	2.4%	11.0%	10.9%	12.8%	12.2%	14.2%
S&P/TSX Total Return Index	-5.9%	-2.7%	8.7%	8.4%	7.8%	8.6%	8.4%
S&P 500 Total Return Index (\$CDN)	-13.6%	-7.7%	10.7%	13.0%	16.0%	8.8%	9.9%

¹ Except for YTD period. ² December 15, 1994.

Despite the highest inflation in four decades, significantly higher interest rates and recession fears, the Odium Brown Model Portfolio* had a good summer. Over the three months ended September 15, 2022, the value of our all-equity Model appreciated by 6.5%. That reduced our year-to-date decline to 2.5%, which compares favourably to the 5.9% and 13.6% declines in the respective Canadian and U.S. equity benchmarks over the same period.

While the uncertainty around inflation, interest rates and the economy fuels wild volatility in asset markets and heated debates among pundits, it's important to remember that investing is a marathon – not a sprint. It's a long-term endeavour where diligence, diversification and patience pay off.

Before we address the path ahead, consider where we have been. Over the last two and a half years, the world has navigated the worst pandemic in more than a century. Before that storm hit, equities were doing very well; in 2019, the Canadian and U.S. equity benchmarks produced total returns in excess of 20%. Since then, they have appreciated 24% and 28%, respectively. That is pretty darn good considering the magnitude of the economic dislocations caused by the pandemic and the war in Ukraine.

The satisfying headline performance of the equity benchmarks over the last few years has masked very significant, and healthy, corrections in individual securities. Not only have many excesses been expunged from the market, but long depressed and neglected securities have experienced meaningful recoveries, too. The phenomenal performance of traditional energy firms is the most obvious example of the latter. Year-to-date, the top three gainers in our Model are Tourmaline Oil Corp. (119%), Cenovus Energy (62%) and Canadian Natural Resources (41%).

Both stocks and bonds have suffered this year, as central banks have increased interest rates to slow economic growth and bring inflation under control. While it's unclear how much more rates have to rise, and how the economy may suffer in the near term, history and our experience have taught us to focus on individual businesses and their prospects over the next three to five years. It doesn't help to obsess about politics, macroeconomics or what may happen next month or next quarter. Our success has always been driven by holding the best combination of businesses for the long term, rather than rotating in and out of the market or between sectors based on an economic forecast.

Indeed, we attribute our pleasing relative performance this year (and over the last few years) to a bottom-up, stock-by-stock focus on the fundamentals. Like blocking and tackling in football, it's the discipline of executing

Continued on next page



Just as a single tackle doesn't win the game, it's unlikely that any of these individual trades will meaningfully move the performance dial. In aggregate, however, we believe they enhance the Model's overall risk and return characteristics and improve the odds that our performance will outshine the benchmarks.



well on the basics that tends to contribute most to long-term success, and not the sexy "Hail Mary" investments. Those basics are: (1) own great businesses; (2) don't pay too much; (3) diversify; (4) focus on the long term; and (5) be patient.

There is no doubt that inflation is a threat to the economy and asset prices, which is why we are pleased that the authorities are taking appropriate action to ensure inflation is not a lasting issue. Investors are well aware of the economic risks associated with the battle against inflation, and we believe much of those risks are already discounted in share prices. While eradicating inflation will have a near-term cost, the normalization of interest rates at a higher, more natural level will also help establish a healthier economic foundation for the future.

We are focused on owning a combination of companies that are best equipped to survive economic turbulence and that can build bigger, stronger and more valuable businesses over our investment horizon.

Over the last three months, we executed a number of trades.

We added a new position in The AES Corporation (AES); increased our weighting in both CAE Inc. (CAE) and PayPal Holdings, Inc. (PYPL) by 50%; swapped our position in Stryker (SYK) for a new one in Enovis Corporation (ENOV); trimmed our holdings of Tourmaline Oil Corp. (TOU), Intact Financial (IFC) and Apple Inc. (AAPL) by half a percentage point each; and sold Charter Communications (CHTR).

The AES Corporation is well positioned to benefit from the green energy transition. The company owns a diverse mix of utilities and renewable power generation assets, and is also a leading developer of energy storage solutions, which will help utilities optimize intermittent renewable power and source a higher proportion of grid electricity from renewables. New management has narrowed the company's geographic and business focus by selling businesses in markets where the firm did not have a strong platform or competitive advantage. The company now has operations in fewer countries, a stronger balance sheet and a rapidly growing renewable energy business. With these positive attributes, together with the company's plan to aggressively phase out coal by 2026, we believe there is meaningful scope for AES's valuation to increase.

Both **CAE** and **PayPal** have performed poorly since we added them to the Model, yet we remain enthusiastic regarding the outlook for their respective businesses. The additional CAE and PayPal shares were purchased at discounts of roughly 40% and 15%, respectively, compared to our original purchase prices.

While we continue to like **Stryker's** competitive position and long-term outlook, we believe **Enovis** has the potential to generate a better return. Enovis is a global leader in orthopedic care solutions, such as knee braces, medical walking boots and rehabilitation equipment. It also has a fast-growing surgical implant business including shoulder, knee, hip, foot and ankle replacements. The orthopedics market is growing as people age, sports become more aggressive and more people occupy the extremes of obesity and very active lifestyles. The company has been gaining market share in its key markets, and we believe the trend will continue. The company is creating innovative new products, servicing growing channels such as same-day surgical care clinics, and offering a growing range of products aimed at prevention, repair and recovery.

Tourmaline, Intact and **Apple** remain BUY-rated and meaningful positions in the Model, and we continue to be enthusiastic regarding their long-term prospects. We trimmed our position sizes for these three stocks and reallocated funds to businesses with better upside to our one-year targets.

We sold **Charter Communications** because the competitive landscape for broadband internet services has intensified. This development, together with the company's relatively high level of financial leverage, an inflationary environment that is putting pressure on discretionary consumer spending and the possibility of an economic recession on the horizon, led us to conclude that there are better investments at this juncture.

Just as a single tackle doesn't win the game, it's unlikely that any of these individual trades will meaningfully move the performance dial. In aggregate, however, we believe they enhance the Model's overall risk and return characteristics and improve the odds that our performance will outshine the benchmarks.



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*The Odium Brown Model Portfolio was established on December 15, 1994 with a hypothetical investment of \$250,000. The Model provides a basis with which to measure the quality of our advice. It also facilitates an understanding of how we believe individual security recommendations could be used within the context of a client portfolio. Trades are made using the closing price on the day a change is announced. Performance figures do not include any allowance for fees. Past performance is not indicative of future performance.

Guaranteed Income Options with Annuity Products

For many clients, annuities may provide a solid foundation for guaranteed retirement income. Annuities can range from the simple life annuity to a more complex variable annuity (commonly referred to as a guaranteed minimum withdrawal benefit plan, or GMWB). In this article, we will exclusively discuss life annuities.

One of the most common questions we are asked is, “How much income would I receive from purchasing a life annuity?”

Several factors influence the income received from a life annuity, including the:

- Demographics of the annuitant (e.g., gender and age);
- Type of annuity purchased (e.g., single life or joint life);
- Frequency of income payments received (e.g., monthly or annually);
- Length of the purchased guaranteed payment period;
- Type of funds used to purchase the annuity (e.g., registered, non-registered or pension); and
- Other special features chosen (e.g., indexing).

One of the most important decisions to make before purchasing an annuity is finding a guarantee that suits your circumstances. Choosing a guarantee option ensures that a certain number of payments will be made if annuitants die within the guarantee period, which starts when the annuity income starts. There are many choices available, ranging from a zero guarantee (where payments stop when annuitants die), to options for guaranteed payments to age 90. If annuitants die during a guaranteed period, a value representing the remaining guaranteed payments is provided to their chosen beneficiary or estate. If annuitants live beyond the guaranteed period, payments continue for their lifetime. For a joint life annuity, a remaining value is paid to the beneficiary or estate only if both annuitants pass away during the guarantee period.

Here is an example of the lifetime monthly income you could receive from an annuity purchased with \$100,000 of non-registered funds, providing a minimum 10-year guarantee.

Guaranteed Life Annuity Income (based on a minimum 10-year guarantee period)							
Monthly income from a \$100,000 purchase							
Age	55	60	65	70	75	80	85 ¹
Single Life Male	\$475	\$514	\$570	\$641	\$730	\$825	\$914
Single Life Female	\$455	\$490	\$536	\$599	\$680	\$781	\$862
Joint Life Annuity ²	\$427	\$454	\$492	\$546	\$624	\$730	\$816

Rate source: Cannex Financial Exchanges Limited as of September 12, 2022; assumes non-registered funds with payments starting in one month. Rates subject to change.

¹ Assumes a 5-year guarantee period for an annuity purchased at age 85, as this is the maximum guarantee available at this age.

² The Joint Life Annuity illustrations are based on a male and female of the same age.

Annuities purchased with non-registered funds have an added advantage, as only a portion of each payment is considered taxable income. As listed above, the monthly payment for a joint life annuity purchased for a male and female, aged 75, is \$624. The “taxable” portion of this monthly annuity income payment would be \$156, or \$1,872 annually. Annuity income may also qualify for the annual \$2,000 federal pension income tax credit, which can reduce or eliminate the tax otherwise payable on the annuity income.



You may wish to consider a life annuity if you seek:

- Guaranteed income for life;
- Higher monthly income than many other guaranteed income products provide;
- Guaranteed payments without exposure to market volatility; or
- A tax-advantaged income stream. Only a portion of each payment from an annuity purchased with non-registered funds is taxable and the taxable portion remains level for life in the case of “prescribed” annuities.

To understand the many options for today’s annuity products and whether they may be suitable for your retirement income needs, please contact us through your Odium Brown Investment Advisor or Portfolio Manager.



RITA AGER, CFP®, CLU, CHS, CPCA, FEA
Insurance Specialist
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DEBBIE STUART, CLU, CHS, TEP
Estate and Insurance Planner
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Odlum Brown in the Community

We are committed to supporting the communities where we live and work, and are proud to sponsor the following important organizations:



Canucks Autism Network – Pro-Am Hockey Tournament November 18-20, 2022 | Surrey, BC



The CAN Pro-Am Hockey Tournament brings weekend warriors and corporate teams together with NHL Alumni in support of Canucks Autism Network (CAN). Next month, the OB Bulls will once again take to the ice in support of individuals on the autism spectrum and their families.

As past winners of the CANley Cup (presented to the top fundraising team), we are thrilled to raise vital funds for CAN again this year. In addition to our fundraising efforts, Odlum Brown is the Auction Sponsor of this wonderful event.

CAN is dedicated to providing programs to individuals on the autism spectrum and their families, while promoting acceptance and inclusion through community engagement and training initiatives across BC and beyond.

For more information, visit canproam.ca.

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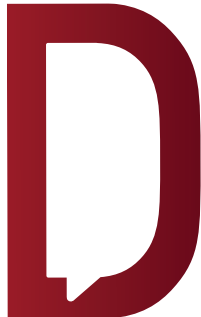
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Drug Free Kids Canada Ongoing | Nationwide

We are pleased to announce our continued support of Drug Free Kids Canada (DFKC) through 2024. Currently, Odlum Brown is the lead sponsor of DFKC's Bi-Annual Tracking Study, an essential piece of research to gather insights on problematic substance use among youth in BC.

As a sponsor since 2020, Odlum Brown supports DFKC's vision to ensure that all young people will be able to live their lives free of problematic substance use and addiction. By educating, engaging and empowering parents and kids across Canada, they aim to make an important impact on young people's mental and physical wellness.

For more information, visit drugfreekidscanada.org.

